



Pitney Bowes

Vice President
Federal Relations

April 7, 1998

The Honorable John McHugh
B-349B Rayburn House Office Building
Washington, DC 205 15

Dear Mr. Chairman:

Thank you for the opportunity to comment on your latest revisions to H.R. 22, the Postal Reform Act of 1997 (Revision).

As you know, Pitney Bowes is an information technology messaging company headquartered in Stamford, Connecticut, with offices throughout the country. We have over 26,000 employees in the United States and 32,000 employees worldwide. We are probably best known for our postage meters, but we have a significant presence in other fields including mailing systems, software, facsimile machines, copiers and business and financial services.

Pitney Bowes agrees with you that the United States Postal Service (USPS or Postal Service) provides a vital and fundamental service to the American people -- universal mail service at affordable rates. We support efforts to enable it not only to survive but to thrive and continue to provide the American public with a highly efficient cost-effective business communications tool. In that regard we support reforms of the 1970 law to enable the USPS to better perform its core service, the transportation, processing, and delivery of mail.

At the same time, there are signs that the USPS may be diluting its efforts, shifting its managerial focus from its core business, mail, to new endeavors. Some are as trivial as the selling of branded trinkets; others such as packaging services, postage payment products, and addressing software demonstrate efforts by the Postal Service to enter markets already served by existing private businesses. The Postal Service is clearly positioning itself as an aggressive challenger to the private sector.

The 1970 Postal Reorganization Act provides little guidance as to the Postal Service's emerging role as a "competitor." Indeed, the Act does not appear to preclude the USPS from entering any new commercial field. concern when the 1970 Act was debated. It is today as the USPS seeks to offset losses in transaction mail

revenues with rate hikes and non-core business strategies. It is time to change the 1970 Act to ensure that today's USPS cannot abuse the authority it enjoys as a Governmental entity with a vast statutory monopoly, to prescribe the boundaries of the field on which it competes, and to ensure the rules of competition are the same for all who compete on that field.

The following points address six issues that Pitney Bowes believes are particularly important.

- The USPS must focus on universal mail as its core product.
- The USPS ~~must focus on lowering end-to-end (total system) mailing costs to~~ continually enhance and improve its core business.
- The USPS must not abuse its regulatory authority to provide a competitive advantage to itself or particular parties.
- The USPS must not compete in markets that it substantially regulates to avoid unacceptable conflicts of interest.
- Postal Service revenues should not be invested in private sector businesses.
- The independent Postal Regulatory Commission should oversee an effective enforcement (complaint) process.

(1) The USPS must focus on universal mail as its core product.

Pitney Bowes believes Postal Service policies and programs should be directed toward competitive improvements in its core service, universal mail. Today's Postal Service, however, seems anxious to market and promote new products and services whose "postal" character is doubtful and that are only tangentially related to its core mission -- universal service at an affordable price. Therefore, it is reducing the probability of rapid improvement in core service.

The Revision begins to address this problem. It prohibits the Postal Service from providing new "non-postal" products directly. We support this. The Postal Service could, however, provide "non-postal" products indirectly through a wholly owned private corporation, the Private Law Corporation (PLC). The Revision proposes "firewalls" to ensure that the PLC cannot be subsidized or otherwise favored by its parent and owner, the Postal Service. However, we question whether the public could ever be confident that

the wholly owned and controlled PLC was not so subsidized or favored. The apparent conflict of interest is inescapable.

(2) The USPS must focus on lowering end-to-end (total system) mailing costs to continually enhance and improve its core business.

All USPS policies, programs, and operations must be judged by their effect on and viability/attractiveness for the customers using the mail system (senders and recipients). The USPS should not implement any policy, program or operation if it discourages the use of the mail by its customers. In fact, the USPS should “re-invest” in the core product to improve its competitive position vis-a-vis alternatives.

When the Postal Service requires cooperative efforts of its customers to cut costs or improve service, and those efforts produce savings for the Postal Service, the customers should reap the benefit of those savings. For example “worksharing discounts” are price reductions designed to recognize work performed by mailers that reduce mail processing, transportation or delivery costs of the Postal Service. Worksharing discounts reflect, in whole or in part, costs avoided by the Postal Service as the result of the efforts of its customers. Examples include presorting, prebarcoding, metering, and dropshipping discounts.

Under the Revision, the Postal Service Directors may provide “worksharing discounts” for noncompetitive products or services, but they are not required to do so. Moreover, discounted rates “would be included in the calculations for rate averaging at the subclass level and would similarly be constrained by the 2-percent banding requirement.” Making discounted rates subject to the 2-percent banding requirement may, in fact, preclude the Postal Service from fully passing through cost savings, and further complicates the issue of each class of service being “self-supporting.”

We believe that Postal Service costs avoided as a result of worksharing should be fully passed through as discount benefits to its customers to whatever extent is practical. This is particularly true in the case of worksharing activities “required” by the Postal Service such as mail preparation requirements.

(3) The USPS must not abuse its regulatory authority to provide a competitive advantage to itself or particular parties.

When the USPS competes with the private sector, it must be on an equal footing with its competitors. By dividing products and services into “postal” and “non-postal” and “competitive” and “noncompetitive” categories, and applying for the first time antitrust, unfair business practice, and State and local laws to Postal Service “competitive” and “non-postal” activities, the Revision begins to level the playing field on which the Postal Service competes. This is a step in the right direction. However, the distinctions between “postal” and “non-postal” and “competitive” and “noncompetitive”

remain ambiguous under the Revision. We urge you to distinguish between these categories with as much precision as possible.

More needs to be done, however, to ensure that the Postal Service competes on an equal footing. In addition, it is essential that the Postal Service not be allowed to skew the competitive playing field to favor particular parties. Thus, we believe legislation must ensure that the Postal Service not be able to:

- use its extensive regulatory authority with respect to postal-related matters to provide a competitive advantage to products or services which it offers in the market place, or to products or services offered by postal "partners" or favored private companies in the market place;

- use its regulatory authority to compel the disclosure, transfer, or licensing of intellectual property (such as patents, copyrights, trademarks, trade secrets and proprietary information); or

- disclose information, or offer any product or service that uses information, obtained from a private company without the consent of that company.

(4) The USPS must not compete in markets that it substantially regulates to avoid unacceptable conflicts of interest.

The Postal Service exercises substantial regulatory authority in markets such as payment evidencing (postage meters and related products) and addressing software. We think the potential for conflict of interest, or the appearance of conflict of interest, is so great that it is entirely inappropriate for the Postal Service to compete in those markets.

Last year we commented on the USPS's proposed Strategic Plan for the years 1998-2002. We observed:

For example, in the case of the metered mail system, the Postal Service authorized certain private parties. . . to develop and furnish postal revenue collection systems and other value added services such as the Computerized Meter Resetting System. The Postal Service also CASS certifies qualified vendors to furnish addressing software to mailers to support Postal Service operations and work share addressing initiatives. In essence, the Postal Service regulates these private businesses in terms of their product and service offerings.

Historically, in the metered mail system, the Postal Service has looked to private industry to bring innovation to the market and

invest the risk capital to ensure the innovation's success. Its primary focus has been on product compliance with Postal Service needs, not the least of which is revenue security. Recently, private industry has developed certain markets and customer acceptance of new products and services, such as addressing software or electronic payment systems for metered mail. In its quest for **additional** revenue sources, the Postal Service has either usurped the business through regulatory edict or published standards or requirements which unfairly allow the Postal Service to compete with private industry simultaneously while it regulates them. ..

Historically, the Postal Service has looked to the private sector for help. Today, it seems to look to the private sector as an opportunity upon which it can leverage its governmental authority to develop new revenue streams.

On February 12, 1998, the "Postal Bulletin," an official USPS publication, announced a pilot project in the Tampa, Florida, area called "PostOffice Online." One part of that project, "Mailing Online," appears identical to services already offered by the private sector. A second part, "Shipping Online," appears to be an Internet-based postage payment system which would serve the same markets as information based indicia products (IBIP) being developed by private companies pursuant to extensive Postal Service regulation.

We do not believe it is advisable for the Postal Service to enter markets already served by the private sector. Instead, the private sector should be allowed and encouraged to continue developing innovative, competitive solutions.

(5) **Postal Service revenues should not be invested in private sector businesses.**

Title IV of H.R. 22, as introduced, would relax statutory restrictions on the USPS's banking, investing, and borrowing activities that today are subject to Treasury Department control. We agree that the USPS should be given more financial freedom to manage its cash flow and "make money on its money." With more than \$60 billion in annual revenues, it has daily cash balances of hundreds of millions of dollars.

We question, however, whether the USPS should be allowed to invest in private sector businesses.

The Revision prohibits private sector investments from the Postal Service Fund. We support this prohibition. Further, to the extent that funds from the Competitive Service Products funds are invested, those investments should be limited to government obligations.

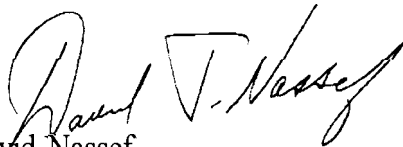
(6) The independent Postal Regulatory Commission should oversee an effective enforcement complaint process.

The Revision proposes a greatly strengthened Postal Regulatory Commission (PRC). We agree.

Thus, the PRC's enforcement authority should be clarified and strengthened. The PRC's jurisdiction must be made clear. It should include complaints alleging unlawful rates or discounts such as rates which exceed the applicable price caps and rates which fail to produce the required contribution to overhead costs. It must include questions of whether the USPS is unlawfully competing in a market which it regulates. The PRC also must be given the legal tools it needs and the authority to impose sanctions such as appropriate rates, cease and desist orders, and refunds or other corrective actions. Its decisions in complaint proceedings should be final, subject only to judicial review.

We look forward to continuing to work with the Subcommittee. Thank you again for this opportunity to comment, and for the effort and commitment of you and your staff to this endeavor.

Sincerely,

A handwritten signature in black ink, appearing to read "David Nassef". The signature is fluid and cursive, with a large initial "D" and a stylized "N".

David Nassef

Vice President, Federal Relations